ALPHA EXCHANGE INC.
NOTICE OF PROPOSED RULE AMENDMENTS AND REQUEST FOR COMMENTS

Alpha Exchange Inc. ("TSX Alpha Exchange") is publishing this Notice of Proposed Rule Amendments in accordance with the “Process for the Review and Approval of Rules and the Information Contained in Form 21-101F1 and the Exhibits Thereto”. Market participants are invited to provide the Commission with comments on the proposed changes.

Comments should be in writing and delivered by December 8, 2014 to:

Colin Yao
Legal Counsel, Regulatory Affairs (Equity Trading)
TMX Group
The Exchange Tower
130 King Street West
Toronto, Ontario M5X 1J2
Fax: (416) 947-4461
Email: tsxrequestforcomments@tsx.com

A copy should also be provided to:

Market Regulation Branch
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario M5H 3S8
Fax: (416) 595-8940
Email: marketregulation@osc.gov.on.ca

Comments will be made publicly available unless confidentiality is requested. Upon completion of the review by Commission staff, and in the absence of any regulatory concerns, notice will be published to confirm completion of Commission staff’s review.

Background to Proposed Amendments

Amendments are being made to the TSX Alpha Exchange Trading Policies ("Proposed Amendments") to reflect changes being made to the trading model for TSX Alpha Exchange.

As Canadian capital markets become more fragmented and complex, retail and institutional investors and their agents continue to seek ways to improve quality of execution and reduce costs. Differences in regulatory requirements and market structure between the U.S. and Canada present options for Canadian dealers to receive execution for their retail and institutional clients’ active orders on more favourable economic terms, by executing with U.S. wholesalers rather than on our domestic public markets. This movement of liquidity to the U.S. represents a serious risk to the quality of vibrancy of Canada’s capital markets as a whole, and may have irreversible consequences.
The Proposed Amendments will facilitate the introduction of an innovative trading model on TSX Alpha Exchange intended to significantly improve the economics and quality of execution for active natural flow, while improving trading conditions for liquidity providers willing to commit to a minimum order size. The new TSX Alpha Exchange model will achieve these benefits by applying an order processing delay ("speed bump") for orders that have the potential to remove liquidity from the order book, enforcing a minimum size for certain liquidity providing orders, and providing rebates for active order flow via implementation of an inverted maker/taker fee model (the active side of the trade receives a rebate, and the passive side pays a fee).¹

By improving the economics for Canadian retail and institutional active flow, this model will present an alternative to the trading services offered by U.S. wholesalers and, in doing so, an attractive solution for the execution of active natural flow in Canada.

In addition, we understand that Canadian market participants are increasingly overwhelmed by the number of marketplaces and facilities, contributing to industry burden in the form of excess costs, fragmentation and convoluted operations. To help to address these challenges, TSX Alpha Exchange seeks to reduce market complexity by simplifying and streamlining its offerings.

Details and rationale for the Proposed Amendments follow. A complete blackline of the Proposed Amendments is included in Appendix A. A blackline of the ‘TMX Equity Markets Order Types and Functionality Guide’ showing changes needed to implement the Proposed Amendments will be available on our website.

Details and Rationale

1. Application of speed bump and requirement for minimum order size

   (a) Speed Bump (Sections 5.9 and 5.9.1)

The speed bump will be imposed on orders that have the potential to trade with passive liquidity – specifically, all orders not designated as Post Only. CFOs and cancels of these orders will also be subject to the speed bump.

The speed bump will be applied equally (i.e., on a non-discriminatory basis) to these orders for all participants – natural investors and others. The length of the speed bump will be random within a set lower and upper limit. The lower limit will be no less than 5 milliseconds, and the upper limit will be no greater than 25 milliseconds. The fixed difference to be established between the lower and upper limits will be anywhere from 1 to 10 milliseconds. Examples of the implemented speed bump follow (speed bump in red):

¹ Specific changes to TSX Alpha Exchange fees will be announced prior to the implementation of the Proposed Amendments.
**Example #1** – Speed bump with delay randomized between set upper and lower limits of 14 and 24 milliseconds.

**Example #2** – Speed bump with delay randomized between set upper and lower limits of 9 and 10 milliseconds.

The speed bump delay parameters will be finalized and communicated to participants in advance of implementation. Advance notice will be provided if there are subsequent changes to the delay.

Post Only liquidity providing orders will not be subject to the speed bump, allowing liquidity providers to effectively manage risk. CFOs or cancels of Post Only orders will similarly not be subject to the speed bump.

The speed bump will discourage latency sensitive active strategies, regardless of the classification of the participant using the strategy, but will not deter active natural investor flow for which a delay in milliseconds is insignificant. This will facilitate for passive liquidity providers an increased likelihood of interacting with active orders of natural investors, while protecting against opportunistic, latency sensitive active strategies.

Increased interaction with natural investors combined with the ability to bypass the speed bump when managing passive orders will encourage liquidity provision, better visible prices and an increase in displayed volume, resulting in better execution for natural order flow.

**(b) Minimum Volume Requirement (Sections 5.9 and 5.9.1)**

In return for bypassing the speed bump, all Post Only orders will be subject to a minimum volume requirement. Post Only orders that do not meet, or are amended to volumes below the minimum volume requirement, will be rejected.

The minimum volume requirement will ensure that liquidity providers post sufficient volume against which active orders can execute, contributing to higher average trade sizes, and improved fill quality and fill rates for natural active flow. This, in turn, will minimize the signaling of liquidity bound for other markets and reduce market impact.
The minimum volume requirement applicable for Post Only orders may differ by symbol, based on security type, value or liquidity profile. For example, for liquid securities that are low in value and typically trade in larger size, a higher minimum volume requirement may be appropriate. Examples of symbols for which the minimum volume requirement might be set lower include illiquid securities where encouraging liquidity provision would be beneficial, and new issuances where delaying the setting of the minimum volume requirement would allow for a proper assessment of the appropriate size. TSX Alpha Exchange will set the minimum volume requirement for any given symbol or category of symbols in its discretion at a level intended to balance the risk of deterring liquidity provision with the objective of facilitating better fill rates and greater certainty of execution for active orders subjected to the speed bump. The minimum volume requirement will be communicated for all symbols in advance of implementation, and will be disseminated in the TSX Alpha Exchange data feeds.

2. Other changes to simplify and streamline current Alpha offering

A number of other changes are being proposed to simplify and streamline TSX Alpha Exchange relative to the current Alpha offering, and to respond to client requests for improvements to certain features and functionalities. These changes will reduce overall complexity and minimize the potential for confusion that can arise from certain competing features and functional differences that currently exist between Alpha and the Toronto Stock Exchange ("TSX") and TSX Venture Exchange ("TSX Venture"). Supporting a more consistent experience for users is expected to have the added benefit of increasing user confidence when trading on our markets. These changes are outlined below in more detail.

(a) Decommissioning of IntraSpread facility

As the value of the IntraSpread offering significantly decreased post-implementation of the IIROC dark rules, and its market share is currently well below 1% of total traded volume, we are decommissioning the facility. Dark trading facilities will continue to be available on TSX and TSX Venture.

See sections 1.1 and 5.9 along with deleted section 5.18 of the amended Trading Policies for the relevant changes.

(b) Elimination of the opening auction for TSX and TSX Venture listed securities on Alpha

To facilitate the centralization of the opening auctions on TSX and TSX Venture for their listed securities, the Proposed Amendments will introduce a mechanism by which symbols can be excluded from participation in the TSX Alpha Exchange opening auction. The intention is that no symbols listed on TSX or TSX Venture will be eligible to participate in the TSX Alpha Exchange opening auction. The opening auction functionality will be retained in the event that it is determined that securities listed on other exchanges would benefit from eligibility in the opening auction.

See sections 5.2(3), 5.16 and 5.17 of the amended Trading Policies for the relevant changes.
(c) Execution of odd lots at the National Best Bid/Offer

To provide the opportunity for better quality execution of odd lots on TSX Alpha Exchange, the Proposed Amendments include modifying the odd lot auto-execution mechanism so that all odd lots are executed at the NBBO (these are currently executed on Alpha at the Alpha BBO). See the sections 6.3 and 6.4 of the amended Trading Policies for the relevant changes.

In connection with the changes being made to facilitate opportunities for better quality execution for odd lots, restrictions on the entry of IOC orders and Specialty Price Crosses with mixed lot and odd lot volumes will be removed.

(d) Additional self trade prevention features

‘Cancel Oldest’ and ‘Decrement and Cancel’ self trade prevention mechanisms are being added to complement the ‘Cancel Newest’ and ‘Self Trade Management’ features currently available on current Alpha. The implementation of this full set of self trade prevention features on TSX and TSX Venture is scheduled for January 2015 and these features were subject to previously published requests for comments. See section 5.14 of the amended Trading Policies for the relevant changes.

(e) Intentional crosses will not be subject to interference

Intentional crosses entered on TSX Alpha Exchange will not be subject to interference. This functionality will complement the crossing functionality on TSX and TSX Venture where crosses are subject to interference. Similar functionality is available today on other Canadian marketplaces.

See Section 5.11 of the amended Trading Policies for the relevant changes.

(f) OPR Route Out Service to be discontinued

The ‘OPR Route Out Service’ will no longer be offered by TSX Alpha Exchange. The ‘Protect Cancel’ and ‘Protect Reprice’ features will continue to be available to meet OPR obligations. Routing services will continue to be available through TSX.

See Division 6 of Part V of the amended Trading Policies for the relevant changes.

(g) Discontinuation of support for special terms book

The special terms book will be removed as it is not used on the current Alpha, and would be of less use to members in the context of the other Proposed Amendments. This change will concentrate any special terms liquidity on TSX and TSX Venture.

---

3 TSX Alpha Exchange will maintain auto-execution of odd lots, which are considered to be special terms orders under UMIR.
See sections 5.9, 5.9.7 (deleted), 5.11.1 and 5.18 of the amended Trading Policies for the relevant changes.

(h) **Removal of extended trading session and extension of trading hours**

The extended trading session is being removed. All trading at the closing price of the listing market after the close can be facilitated by TSX and TSX Venture extended trading sessions. In connection with this change, Special Trading Session Crosses will be eliminated because they are only accepted during the extended trading session.

TSX Alpha Exchange will also extend its trading hours and support continuous trading from 8am – 5pm ET.

See sections 5.2 and 5.11.1 of the Trading Policies for the relevant changes.

(i) **Other non-public interest amendments**

Certain non-public interest amendments are also being made to update the TSX Alpha Exchange Trading Policies in light of recent legislative changes and policy updates, to correct typographical errors, to provide greater clarity, or for branding purposes. These are reflected in the blackline of the Proposed Amendments at Appendix A.

**Expected Date of Implementation**

The Proposed Amendments are expected to become effective in June 2015.

**Expected Impact**

We do not believe the Proposed Amendments will have a negative impact on market structure, members, investors, issuers or capital markets. The Proposed Amendments relating to the speed bump and minimum volume requirement are expected to facilitate better execution quality for the marketable active order flow of natural investors while also allowing for improved trading economics for retail and institutional dealers, as well as liquidity providers. The remaining Proposed Amendments will simplify and streamline TSX Alpha Exchange, reducing the level of overall complexity in the market as a whole, and ensuring a more consistent experience for users when trading on TMX equities markets.

We expect that the introduction of the Proposed Amendments on TSX Alpha Exchange, including the proposed speed bump and the removal of certain features and functionalities (e.g., IntraSpread), will require minimal changes by members and service vendors.

**Expected Impact of Amendments on the Exchange’s Compliance with Ontario Securities Law**

The Proposed Amendments will not impact TSX Alpha Exchange’s compliance with Ontario securities law and in particular the requirements for fair access and maintenance of fair and orderly markets. The introduction of a speed bump does not limit access because it will be applied equally to all liquidity taking orders, irrespective of type or class of account or participant. The only exception to the application of the speed bump will be for liquidity providing orders that are Post Only, which is available for use by any party (subject to the minimum volume requirement). Passive liquidity providers that are not willing to commit
the specified minimum volume applicable to the use of Post Only orders will still be able to post passively on TSX Alpha Exchange, but their orders will be subject to the speed bump. The other changes comprising the Proposed Amendments that are being made to simplify and streamline functionality will also have no impact on TSX Alpha Exchange’s compliance with Ontario securities law.

**Estimated Time Required by Members and Service Vendors to Modify Their Own Systems after Implementation of the Proposed Amendments**

We expect that the introduction of the Proposed Amendments on TSX Alpha Exchange will require minimal changes by members and service vendors.

Some modifications may be needed as a result of changes being made to harmonize functionality. However, efforts in these cases should not be material because the affected features and functionalities will operate in the same way as currently on other TMX equities markets.

Establishing a new connection to the TSX Alpha Exchange trading environment will be required as a result of the concurrent planned upgrade to TMX Quantum XA. As part of our efforts to simplify our market offerings, we intend for a dealer to be able to access trading on TSX Alpha Exchange through a single connection.

We therefore believe that approximately three months between the date of the publication of any notice of approval by the Commission and implementation of the Proposed Amendments will be sufficient. This timeframe complies with the guidance set out in OSC Staff Notice 21-706 Marketplaces’ Initial Operations in relation to ‘material systems changes’, and is consistent with the standard recently applied for the launch of new markets (e.g., CX2 and Lynx ATS).

**Do the Proposed Amendments Currently Exist in Other Markets or Jurisdictions**

Examples of the application of a processing delay to orders before being executed or booked on a market exist in the foreign exchange market. For example, ParFX and EBS Market have utilized processing delays as part of their foreign exchange market offerings.

IEX, an equities marketplaces operating as an ATS in the US, also employs a delay on received orders, although it is implemented differently.

Finally, Aequitas Neo Exchange also proposes to implement a speed bump on its “Neo Book” trading facility, but it will be applied to a specified class of participant (termed “Latency Sensitive Trader”) whereas the speed bump proposed for TSX Alpha Exchange will be applied on a more equitable basis.